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United States Senate

COMMITTEE ON SMALL BUSINESS & ENTREPRENEURSHIP

WASHINGTON, DC 20510-6350

February 20, 2002

The Honorable Hector Barreto
Administrator, Small Business Administration
409 Third Street SW
Washington, DC 20416

Dear Administrator Barreto:

Recently the General Accounting Office (GAO) released a report I requested on the Small Business Subcontracting Program. The report mentions some weaknesses in the oversight of that program that I call to your attention.

Section 8(d) of the Small Business Act states the policy of the United States Government that small businesses shall have the "maximum practicable opportunity to participate" in Federal procurement. This extends not only to prime contracts, which in my view are the preferred approach for small business participation, but also to subcontracts. In many cases, such as major weapon systems, small business will have to participate at the subcontract level if they are to participate at all.

To achieve this goal, paragraphs (4) and (5) of section 8(d) specify that prime contractors shall submit subcontracting plans if the prime contract is worth more than \$500,000 (\$1 million in the case of construction of a public facility). Moreover, § 15(e), regulating contract bundling, envisions that if a proposed bundling is found necessary and justified on the basis of a market analysis, the contracting agency shall take specific actions to enhance subcontracting opportunities for small firms.

These provisions will be rendered useless if the subcontracting program is not adequately enforced or overseen. If prime contractors are able to submit data on their subcontracting efforts but are not held accountable for its accuracy, they will be tempted to submit incomplete or misleading information. GAO reports disturbing numbers on the efficacy of the Government's oversight of subcontracting. In Fiscal 2000, SBA did on-site reviews of only 15 percent of the 1,780 contractors with subcontracting plans that SBA was responsible for overseeing; at the Department of Defense, 93 percent of their 1,010 prime contractors were reviewed by the Defense Contract Management Agency (DCMA). As GAO notes, these on-site reviews are *indispensable to examine the validity of contractor-provided data and cannot be replaced by a review of the contractor's paperwork in a "desk review."*

GAO further reports a disturbing allegation that SBA conducts on-site reviews of prime contractors based on "the time available to do the reviews and the proximity of the contractor to the reviewer because of travel and staff limitations." Although I understand this is not SBA's

formal policy, as you note in your comment letter, I remain concerned that this is often the practical basis for deciding which on-site reviews to conduct. Past communication with SBA has repeatedly pointed to neglect of SBA's core programs due to lack of travel money and expense funds for SBA staff. The previous Administrator's extensive travel and personal services expenses appear to have crowded out SBA's ability to perform its statutory obligations. As budgets become tighter than ever due to the need to fund the nation's security needs, this competition for funding will become worse, not better.

To understand better the current situation in this area, I would appreciate detailed information from you on the number of SBA personnel available to do these on-site reviews. Has the number of such personnel grown or declined during the last decade? What fraction of these personnel are full-time and what fraction are part-time, and how has this proportion changed over the past decade?

If prime contractors win contracts based in part on the strength of their subcontracting plans, they must also be held accountable for their performance on that plan. If a prime contractor defaults on its subcontracting plan commitments, but continues to receive contracts nonetheless, the firm will soon realize that the Government is not really serious about subcontracting. This invites contempt for the small business program. I was greatly disturbed to learn that SBA has not consistently reported, to contracting officers, its findings about prime contractor compliance with these subcontracting plans. If a contracting officer is to hold a prime contractor accountable, he or she must have the information SBA collects about how the prime contractor is performing.

When I hosted a national women's business summit in Kansas City in June of 2000, I heard repeatedly from women small business owners that they felt used and abused. They felt that prime contractors used them to create competitive subcontracting plans, helping the prime contractor win a contract, only to have the firm not follow through on its subcontracting plan commitments once the contract was awarded. Your commitment to begin communicating past performance information to contracting officers is vital to establishing accountability. I appreciate your including such a commitment in your comment letter to GAO. You note that you "have taken steps to begin this immediately." Please let me know what specific steps you have taken in this area.

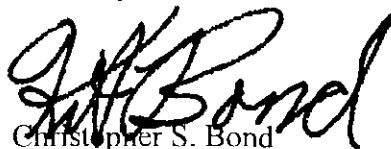
Please also advise me what actions you will take to update SBA's database on contractor ratings, which GAO also notes is "not complete and up-to-date." I would appreciate an assessment of the current state of the contractor ratings database and a proposed action plan with specific steps to make that database fully operational.

In sum, I would appreciate a response from you by March 22, 2002, with the following:

- (1) a list of specific steps taken to ensure the results of SBA's subcontracting reviews are communicated to contracting officers;
- (2) an assessment of the current state of the contractor ratings database and an action plan detailing specific actions to be taken to make this database fully operational; and
- (3) a situation report on the size of the SBA workforce dedicated to reviewing subcontract plan compliance. In particular, as stated previously, has the number of such personnel grown or declined during the last decade? What fraction of these personnel are full-time and what fraction are part-time, and how has this proportion changed over the past decade?

Thank you in advance for your work to improve accountability and effectiveness in the Small Business Subcontracting Program. If you have questions about this letter, please contact Cordell Smith of my Small Business Committee staff on (202)224-

Sincerely,

A handwritten signature in black ink, appearing to read "Chris Bond", written over the printed name.

Christopher S. Bond
Ranking Member

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